

Message Text

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ORIGIN L-03

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DRAFTED BY L/NEA:ATBROWN:HME

APPROVED BY NEA:LBLAINGEN

NEA/INS:DWBORN

TREAS:DCHIODO(SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

INFO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 236127

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJECT: RUPEES: EXCHANGE RATE FOR CONVERSIONS

REFS: (A) NEW DELHI 13992; (B) NEW DELHI 13993

1. OUR OBJECT IS TO OBTAIN OUR DOLS 6.4 MILLION ANNUALLY FOR THE FEWEST POSSIBLE RUPEES. YOUR PROPOSAL CONTAINED LANGUAGE DESIGNED TO ACCOMPLISH THIS (PARA 6(A) OF PART I OF NOVEMBER 23 DRAFT).

2. WE FIND RBI COUNTERPROPOSAL MORE SPECIFIC BUT BASED ON CROSS-RATE SYSTEM WHICH, ALTHOUGH NOW IN EFFECT, WAS NOT IN EFFECT TEN YEARS OR EVEN TWO YEARS AGO AND QUITE PROBABLY NOT IN EFFECT TWO OR TEN YEARS HENCE. HOWEVER, WE FEEL RBI PROPOSAL ACCEPTABLE, SUBJECT TO FOLLOWING CHANGES, IN THAT IT PROVIDES FOR USE OF A CONVERSION SYSTEM NOW IN EFFECT, AND FOR THE BEST RATE
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AVAILABLE IF A DIFFERENT SYSTEM COMES ALONG.

3. FIRST, SOME QUESTIONS WE HAVE NOT BEEN ABLE TO GET ANSWERED HERE TODAY: IS THERE MORE THAN ONE SELLING RATE ON ANY GIVEN DAY IN LONDON FOR DOLLARS WITH STERLING? IS THERE A SINGLE CLOSING RATE EACH DAY? UNLESS THERE IS ABSOLUTELY ONLY ONE SUCH "LONDON" RATE, OR PERHAPS EVEN IN THAT CASE, BY WHOM OR WHAT IS THAT

RATE IS FIXED AND WHERE IT IS REPORTED. IN GENERAL, WE WISH TO BE CERTAIN THAT THE SELLING RATE FOR THE US DOLLAR IN TERMS OF THE POUND STERLING IN LONDON CAN ACTUALLY BE FOUND WHEN NECESSARY.

4. NOTE THAT USE, IN THE ALTERNATIVE PROVISIO, OF THE "HIGHEST" LEGAL RATE (ASSUMING THAT MEANS THE FEWEST RUPEES PER DOLLAR) IS BENEFICIAL TO USG IN PARA 6(A) CONVERSION CASE BUT DISADVANTAGEOUS IF THE SAME CONVERSION FORMULA IS CROSS REFERENCED IN THE MOV PROVISION. WE, THEREFORE, BELIEVE A SEPARATE EXCHANGE RATE PROVISION SHOULD BE INCLUDED WITH THE MOV FORMULA.

5. FOR CONVERSION (PARA 6) PURPOSES, USG AGENCIES PREFER "FEWEST NUMBER OF RUPEES" LANGUAGE CONTAINED IN EARLIER PROVISIO CLAUSES. ALSO, REFERENCE TO "HIGHEST" EXCHANGE RATE UNCLEAR. ACCORDINGLY, SUGGEST CONVERSION LANGUAGE BE REVISED TO READ AS FOLLOWS:

"THE APPLICABLE EXCHANGE RATE FOR THIS PURPOSE SHALL BE THE RATE DERIVED BY MULTIPLYING THE SELLING RATE FOR THE UNITED STATES DOLLAR IN TERMS OF THE POUND STERLING IN LONDON ON THE LAST PRECEDING BUSINESS DAY BY THE SELLING RATE IN BOMBAY ON SUCH BUSINESS DAY FOR THE POUND STERLING IN TERMS OF THE INDIAN RUPEE FIXED BY THE RESERVE BANK OF INDIA; PROVIDED, THAT IF ON ANY CONVERSION DATE THE APPLICABLE EXCHANGE RATE CANNOT BE SO DERIVED, IT SHALL BE THE RATE LEGALLY AVAILABLE IN INDIA ON SUCH DATE WHICH REQUIRES THE SMALLEST NUMBER OF INDIAN RUPEES FOR THE PURCHASE OF THE UNITED STATES DOLLAR AND WHICH IS NOT LESS FAVORABLE TO THE GOVERNMENT OF THE UNITED STATES OF

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AMERICA THAN EXCHANGE RATES OBTAINABLE BY ANY OTHER NATION ON SUCH DATE."

6. IF LONDON WOULD CARE TO OFFER TECHNICAL ASSISTANCE BY RESPONDING TO QUESTIONS RAISED PARA 3 ABOVE, WE SHOULD BE GRATEFUL. TO PROVIDE WHEREWITHALL, WE REPEATING REFTELS TO LONDON. PORTER

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